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**Audit Of The Office Of
Economic Opportunity Grant
To The George Washington
University For Operation Of
The Urban Law Institute**

B-130515

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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APRIL 13, 1971

GENERAL ACCOUNTING OFFICE
AUDIT OF THE
OFFICE OF ECONOMIC OPPORTUNITY GRANT
TO
THE GEORGE WASHINGTON UNIVERSITY
FOR OPERATION OF
THE URBAN LAW INSTITUTE

INTRODUCTION

Pursuant to a congressional request, we made an audit of the records pertaining to a grant to the George Washington University for operation of the Urban Law Institute during the fiscal year ending June 30, 1971. The grant of \$568,880 was made by the Office of Economic Opportunity (OEO). Our audit was directed toward determining whether the grant funds were expended in accordance with conditions of the grant and applicable OEO policies and instructions. We did not attempt to determine how effective the Urban Law Institute had been in attaining the program objectives for which the grant was provided.

We examined personnel records and, on a test basis, financial transactions for the period July 1 to December 31, 1970. Our test of financial transactions included items amounting to about \$124,725 of the \$285,534 expended during the 6-month period under the fiscal year 1971 grant. We reviewed applicable legislation, OEO policies and instructions, and the grant agreement. We also interviewed officials of the university, institute, and OEO who had cognizance of the grant. The audit was made at the George Washington University and OEO headquarters in Washington, D. C.

Officials of OEO, the university, and the institute have not been given an opportunity to examine and comment formally on this report, but the findings were discussed with their representatives.

The Urban Law Institute program includes training lawyers and has been funded by the Federal Government since May 1968 as a demonstration project under section 232 of the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2825). The objective of the institute's program for training lawyers is to experiment with and demonstrate new approaches and methods in the delivery of legal services to groups or classes of disadvantaged persons. Under arrangements with private law firms and private organizations, program participants are to be assigned to work for the public good under the supervision of senior attorneys. An important element in accomplishing this objective is the development of a curriculum for effectively teaching this type of legal practice. The program also provides assistance to candidates in obtaining a master's degree in poverty law. Grants made to the university for operation of the Urban Law Institute were as follows:

<u>Fiscal year</u>	<u>Amount</u>
1969 ^a	\$ 117,066
1970	331,656
1971	<u>568,880</u>
Total	<u>\$1,017,602</u>

^a Covers the period May 1968 to June 1969.

The university administers the grant funds under its regular procedures for handling grants and maintains the accounting records for the grant. Under these procedures expenditures, including payrolls, are first approved by the institute's management and are then paid by the university if the expenditures are within the limits of the budget as approved by OEO. As shown on page 6, expenditures under the fiscal year 1971 grant for the 6-month period ended December 31, 1970, totaled \$285,534.

As of December 31, 1970, the institute's personnel consisted of 16 professional and 12 administrative full-time employees, 13 candidates for master's degrees in law, one candidate for a law degree, and several part-time employees. The candidates are required to work 30 hours a week on institute activities.

The university's Office of Public Relations, in its "Monday Report" dated March 1, 1971, stated that the university's National Law Center had announced that it planned to sever its ties with the institute because the institute was evolving into a large public-interest law firm over which it had no control.

FINDINGS

We found that the Federal grant funds were expended in accordance with the conditions of the grant and applicable OEO policies and instructions except for a few expenditures discussed below. To put these questioned expenditures in proper perspective, we want to point out that the amounts of the questioned items were small both in relationship to the total of the institute expenditures and in comparison to amounts we have questioned in reviews of other OEO demonstration grants. Furthermore, the university records maintained for the grant compare favorably with those maintained by most other OEO grantees whose records we have reviewed. The university has orderly financial management procedures and an adequate accounting system; for the most part, its expenditures are well supported by appropriate documentary evidence.

In addition to our review of financial transactions, we also reviewed the quarterly reports submitted by the institute to OEO for the period

covered by our review to determine whether the activities reported by the institute were within the scope of activities contemplated under the terms and conditions of the grant. The institute reported on (1) its accomplishments in developing teaching material for university courses in urban law, (2) cases pending and under litigation in which it was involved, and (3) other activities such as providing guidance and assistance to disadvantaged economic and social groups. The activities of the institute, as described in the quarterly reports to OEO, were, in our opinion, within the scope of activities contemplated by the terms and conditions of the grant.

There has been some confusion by certain OEO headquarters officials responsible for administering the grant as to which OEO instructions applied to this grant. OEO has not issued a complete set of instructions and requirements that are applicable to demonstration grants, the type of grant under which the institute is funded. As early as February 1965, OEO had planned to issue instructions applicable to such grants. As a stopgap measure, OEO since 1965 has relied, in part, on its instructions applicable to community action grants although some of the instructions do not apply to a demonstration grant.

Details of the expenditures which we questioned follow.

LIMITATION ON STARTING SALARIES OF NEW EMPLOYEES

OEO instructions governing compensation of employees of grantees require that starting salaries of new employees paid over \$5,000 annually be limited to an increase of 20 percent over their prior salary or \$2,500, whichever is less, unless OEO approval is obtained.

Our review of employees' personnel folders for the 36 employees hired by the institute during the period July 1, 1970, through December 31, 1970, showed that incomplete or no information had been obtained on prior salaries of 12 employees. For these employees we were thus unable to determine whether the salary limitation had been complied with. We were informed by a university personnel official who had responsibility for maintaining records of employees' qualifications that he was unaware of the OEO requirement governing starting salaries and therefore had not always obtained prior salary data.

Our review of the personnel folders for the 24 employees which contained complete prior salary data revealed that two employees had received starting salaries in excess of the OEO limitation. The folders contained no evidence that the required OEO approvals had been obtained. The annual salaries of these two employees exceeded the limitation by \$627 and \$877, respectively. The amounts actually paid to the two employees in the 6-month period covered by our review exceeded the limitation by a total of \$360. The university advised us that the two employees' salaries had been

set at these levels so that their salaries would be consistent with the university's pay scale for comparable work.

In March 1971, we discussed this matter with officials of the university and OEO. Subsequently, by letter dated April 1, 1971, OEO advised the institute that the starting salaries granted to the two employees were approved.

OVERHEAD

The terms of the OEO grant provide for the university to be reimbursed for its overhead from grant funds at the rate of 20 percent of the approved grant personnel costs. The university in computing the reimbursement applied the overhead rate to personnel costs and stipends paid to candidates for master's degrees. These stipends, however, were not classified as personnel costs in the OEO-approved budget for the grant.

The budget provided for financial assistance to 16 candidates for master's degrees in the form of a stipend to each of \$6,800 and classified the amount budgeted as nonpersonnel costs. The university, by applying the overhead rate to these nonpersonnel costs, charged the grant for additional overhead of about \$6,000 for the period July 1, 1970, to December 31, 1970.

We brought this matter to the attention of the university's comptroller, who advised us that the university would seek to obtain OEO's approval to reclassify the stipends as personnel costs.

TRAVEL EXPENSES

OEO instructions require that travel by employees of grantees be authorized and paid for in accordance with the Standardized Government Travel Regulations. Our examination of travel expenditures of about \$5,900--selected from the total expenditures of \$9,800 for the period July 1, 1970, to December 31, 1970--showed that the university had not followed certain administrative practices required by the regulations relating to the authorization and approval of travel on an actual expense basis.

The regulations permit travel expenses to be paid on the basis of a per diem rate of up to \$25 or of actual travel expenses. The regulations require, among other things, that conditions be prescribed under which reimbursements may be authorized or approved for actual travel expenses and that such conditions shall restrict travel on an actual expense basis to those travel assignments where necessary subsistence costs are unusually high.

The university followed the practice of reimbursing institute employees on the basis of their actual travel expenses and had not prescribed conditions restricting such travel. Although the amount of the reimbursements to some institute employees for actual travel expenses exceeded the amount allowable under the regulations on a per diem basis of \$25, we were unable to determine the amount of the overages and underages because some of the travel claims did not show the departure and arrival times which affect a per diem computation. However, of the \$5,900 travel expenses that we examined only \$1,500 was for per diem type travel.

University officials advised us that it was the university's policy to pay actual travel expenses for its employees and, since the grant was being funded through the university, they were of the opinion that the university's travel policy should apply to the institute. We were advised also that they were not aware of the OEO requirement that the Standardized Government Travel Regulations were to be followed.

SALARY CEILINGS

The grant contains a requirement that salaries of institute employees in excess of \$15,000 must be approved by the Associate Director, Office of Legal Services, OEO. We found that two employees, one is the director of the institute, were being paid salaries from grant funds of \$17,500 and \$18,000 without approval from OEO. Although the institute notified OEO on August 18, 1970, of the salaries being paid to these two employees, OEO and institute officials were unable to furnish us with evidence that the salaries had been approved.

In March 1971, we discussed this matter with officials of the university and OEO. Subsequently, by letter dated April 1, 1971, OEO advised the institute that the salaries being paid the two employees in excess of \$15,000 were approved.

FINANCIAL REPORTING

For the months of May 1970 through January 1971, the university did not prepare and submit to OEO monthly financial reports as required by OEO instructions. An OEO directive states that delinquent reports by grantees impair OEO's ability to administer grants and to meet its financial reporting responsibilities to the Congress and other Federal agencies.

Although OEO did not receive the required monthly financial reports, we found no record indicating that OEO had sought to obtain the reports.

In February 1971, we brought this omission to the attention of university officials with the result that the required reports were prepared and promptly submitted to OEO.

The expenditures under the fiscal year 1971 grant for the period July 1, 1970, to December 31, 1970, are shown below.

<u>Expense category</u>	<u>Amount expended</u>
Salary--faculty full time	\$ 8,750
Salary--nonacademic	108,214
Wages--part-time personnel	21,973
Stipends--candidates for degrees	30,075
Personal services, other	23,522
Telephone	3,923
Travel	8,831
Conferences--includes about \$1,000 for travel	2,481
Printing	10,556
Program development	6,026
Tuition--candidates for degrees	6,753
Office expense	10,221
Books and material	657
Staff benefits	14,620
Overhead--preliminary, subject to adjustment at end of fiscal year	<u>28,932</u>
Total	<u>\$285,534</u>